PENSIONS
INVESTMENTS
LIFE INSURANCE

BUDGET 2016
ADVISORY SERVICES UPDATE

This document provides commentary and summary of the main changes announced in the Budget Tuesday 13th October 2015.

Irish Budget Economic Commentary
By Lenny McLoughlin, Economist, Irish Life Investment Managers

For a second year running, the economic and fiscal backdrop in Ireland is much more favourable than official projections made at the time of the most recent update of the medium term fiscal plan in the Stability Programme Update in early April this year.

This is evident in the pre-budget growth projections provided by the Department of Finance in early October on which the budget was based. In these, GDP growth was forecast at 6.2% in 2015 and 4.2% in 2016 compared to the estimates in April of 4.0% growth in 2015 and 3.8% in 2016. This reflects the strong performance in the Irish economy year to date with GDP rising 6.7% y/y in Q2 and a 7.0% rate in the first half following an upward revision to Q1 GDP to 7.2% y/y.

In Q2, domestic demand was strong as consumption grew 0.4% q/q or 2.8% y/y while investment rose 19.2% q/q or 34.2% y/y. The trade side continued to make a positive contribution with exports rising 6.3% q/q or 13.6% y/y in Q2 with the trade surplus set to rise for the first year since 2010. In Q2 the current account surplus rose to €2,704m or 5.2% of GDP. The economy and domestic demand have been underpinned by the continued fall in unemployment to 9.4% and the rise in numbers employed to 1.96m which is the highest since Q2 2009. Consumer confidence has risen close to nine year highs and retail sales remain strong, most recently up 9.3% y/y or 7.6% y/y excluding autos.

With the better than expected growth backdrop, the government fiscal position prior to the budget was significantly better than initially expected. To the end of September, the underlying deficit was €2.4bn or 1.5% of GDP ahead of the 2.3% official target. Tax revenues were running 5.8% ahead of budget while government expenditure was €500m below target, mainly due to lower debt service costs as a result of low interest rates and lower than expected current expenditures.

However, in the White Paper published last weekend outlining revised forecasts for public finances, the government indicated that it intends to spend an additional €1.5bn compared to its previous target over the remainder of 2015, thus using much up much of the excess revenues generated year to date. As a result of the additional €1.5bn expenditure in 2015, the fiscal deficit for 2015 is now forecast to be 2.1% of GDP, higher than implied by the exchequer returns to the end of September.

The 2016 budget announced today was generally in line with expectations and included €1.5n of expansionary measures split 50/50 between reduced taxes and increased expenditure. The main tax reduction related to the increased entry threshold for the payment of the Universal Social Charge (USC) to €13,000 and a 0.5% reduction in USC rates to 1% and 3% for the first two bands and a 1.5% reduction to 5.5% for the third band. Other tax reductions included the removal of the pension levy of 0.15%, an increase in the threshold for capital acquisitions tax on transfer of family wealth to €280,000, a reduction in capital gains tax on the sale of businesses to 20%, reductions in commercial vehicle tax and introduction of tax credits for self-employed and small business owners and for farmers. The only tax increase announced related to a 50 cent increase in excise duty on cigarettes and tobacco products.

On the spending side, additional expenditure of €750m in 2016 will include initial spending under the recently announced capital spending plan of €27bn which will be implemented over six years. Other areas with increased funding next year include child care, education, social protection and housing and the health services. Extra spending will also be available for additional garda recruitment and public service wage increases.

Overall, the government estimated that the fiscal deficit will fall to 1.2% of GDP in 2016 with a balanced budget expected by 2018. Debt/GDP is estimated to fall to 97% by the end of 2015 and 93% by 2016 and was forecast to be below 80% by 2021. The government forecast that GDP will grow at around 3% in the years following 2016.

Pensions Overview

In Budget 2016 the government has continued their support of private pension provision and have not announced any changes to how such pensions operate.

Key Points on Pensions

- Pension Levy has ceased and it does not apply in 2016. The minister repeated the commitment of the last two budgets that 2015 is the last year of the Pension Levy.
- Marginal rate income tax relief retained on pension contributions.
- No change announced for AMRF limits.
- No change announced for early access withdrawal of 30% of AVCs. This is permitted to 26 March 2016

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In previous Budgets Minister Noonan has stated that the government believes it is in peoples best interest to continue to invest in pensions. There were no changes announced to pension options, funding limits or the tax relief available. The only announcement on private pensions was a repeat that we have seen the back of the Pension Levy.

The Finance Bill will follow in the next couple of weeks. We will be watching in case there are any technical changes on pensions. In particular, when the AMRF limit was reduced in March 2013 from €119,800 to €63,500 it was said this was for a 3 year period. There was no statement in the Budget regarding this AMRF limit. There has been no campaign for the AMRF limit to be increased, and so it would be a surprise if this happened. If anything the suggestions, including from Irish Life, have been that the requirement to invest in an AMRF, or to be in receipt of a set level of guaranteed income, before investing in an ARF should be dropped.

There was nothing announced in the budget extending the option to take a once off withdrawal prior to retirement of 30% of AVC values. This is permitted up to 26 March 2016.

Should there be any changes to these items in the Finance Bill then we will of course let you know.

Social Welfare

There were some Social Welfare increases announced that will affect those in receipt of the State Pension. There is an increase to all rates of State Pension (Contributory and Non-Contributory) of €3 per week. This increases the full rate State Pension (Contributory) to €233.30 per week, with an increase of €6 per week for an adult with qualifying dependant age 66 or over to €442.30 per week. The additional Christmas bonus has been increased from 25% to 75% of the weekly rate. There is also an increase to the fuel allowance by €2.50 per week to €22.50.

It is interesting to consider these increases to the State Pension in light of the recent McKinsey report 'Is Ireland's population ready for retirement?'. In their report McKinsey said that poverty rates in retirement were lower than most large OECD countries and that for lower-income households the State Pension replaces a large proportion of their pre-retirement spending. Concerns were raised however about the long-term sustainability of the State Pension. This Budget does not take any steps to address that concern. As such private pensions remain a key element of most peoples pension planning if they wish to maintain their standard of living in retirement.

Some of the other social welfare measures announced included:

- Children will be eligible for free childcare from three years of age, up until they are five and a half, or until they start primary school.
- Increase in child benefit by €5. In 2016, child benefit will be €140 per month.
- An intention to legislate for statutory paternity leave of two weeks. This change will take affect from next September.
- Extension of free GP care for the under 6s and over 70s to include all those under 12.

Life, Savings & Investments Overview

The Ministers 'keep recovery going' Budget 2016 held very few surprises. The increase in the Group A threshold for gifts and inheritances from parents to children was the main 'change' worth noting for the 'life' side of the industry. Also notable by its absence was the fact that no change was mentioned to the current exit tax rates for both personal and corporate investors in life assurance savings and investment products.

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Key Budget 2016 Life, Savings and Investments Announcements

Capital Acquisitions Tax

The current Group A tax free threshold which applies primarily to gifts and inheritances from parents to their children is being increased from €225,000 to €280,000. This increase applies in respect of gifts or inheritances received on or after the 14th of October 2015.

The current CAT rate of 33% remains unchanged by todays Budget but we will, of course, be reviewing the Finance Bill when it is published to see if any other changes are proposed to the CAT legislation.

Capital Gains Tax

CGT Entrepreneur Relief
A revised CGT relief for entrepreneurs is being introduced which will represent a simplified and upfront benefit for individuals who propose to sell their business. A lower CGT rate of 20% will apply to the net chargeable gains arising on disposals of assets comprising the whole or a discrete part of a trade or business, subject to a lifetime limit of €1 million on such gains, with effect from 1 January 2016.

Tax on Life assurance savings and investment contracts

No change was announced today to the exit tax rates, either personal or corporate, which apply to life assurance savings and investment products. Thus the exit tax rate for personal investors is still 41% and the rate for corporate investors is unchanged at 25%.

It is important to note that the PRSI charge on unearned income which has been in place since 2014 will still not apply to amounts paid out under life assurance policies. This advantage for life assurance savings and investment plans still remains in place for personal investors.

It is also important to note that the reduced CGT rate announced will only apply to the sale of business assets, thus the sale by a business of any 'investments' it holds will still be subject to a CGT rate of 33%. Again, the use of life assurance savings and investment products for your clients 'corporate' investments still makes sense.

We will of course be reviewing the Finance Bill when it is published to see if any changes of relevance are made in this area.

Stamp Duty
Stamp Duty on combined debit / ATM cards

The current €2.50/€5 per annum charge on ATM cards and combined (ATM & debit) cards will be abolished from 1st January 2016.

However, a new 12c ATM withdrawal fee will be introduced from 1st January 2016. This charge will be capped at €2.50/€5 per annum per card.

While the method of taxing transactions / cards has been altered, for account holders making weekly cash withdrawals from their combined cards there will be no change to the actual duty incurred.

Local Property Tax

The revaluation date for the Local Property Tax is being extended from 2016 to 2019. The postponement of the revaluation date effectively means that home owners will not be faced with significant increases in their LPT in 2017 as a result of increased property values.

Of note for those of you with clients in the agricultural sector …..

Farm Succession

Minister Noonan announced a new succession transfer partnership model being introduced to allow two people to enter into a partnership with the aim of transferring the farm to the younger farmer at the end of a specified period, not to exceed ten years. To support this transfer, an income tax credit worth up to €5,000 per annum for five years will be allocated to the partnership and split according to the profit-sharing agreement. The purpose of the 'partnership' will be to facilitate knowledge transfer and a gradual transfer of control between farm partners.

Extension of the Agri-tax reliefs

The stamp duty exemption for young trained farmers which was due to expire at the end of December 2015 is now being extended until the end of 2018.

Income Tax, PRSI and other Information

Income Tax Rates	No Change
Standard Rate	20%
Higher Rate	40%

Standard Rate Bands	No Change
Single / Widowed	
No dependent children	€33,800
With dependent children	€37,800
Married – one income	€42,800
Married – two incomes	€42,800 + increase
Increase is the lower of €24,800 and income of lower earning spouse.	

Income Tax Credits	2016
Personal	
Single	€1,650
Married	€3,300
PAYE Credit	€1,650
Earned Income Credit (Self Employed)	**€550**
One Parent Family	€1,650
Age Allowance (single)	€245

Income Exemption Limits	No Change
Single / Widowed (aged 65+)	€18,000
Married (aged 65+)	€36,000

PRSI Rates	A1	S1
Employee		
All Income	4%	4%
(earnings less than €352pw exempt)		
Employer		
Income up to €19,552	8.5%	n/a
Income exceeding €19,553	10.75%	n/a

Universal Social Charge Rates from 1 January 2016	Employee	Self Employed
Income up to €12,012	**1%**	**1%**
Between €12,013 and €18,668	**3%**	**3%**
Between €18,669 and €70,044	**5.5%**	**5.5%**
Between €70,045 and €100,000	8%	8%
Income in excess of €100,000	8%	11%
Total income less than €13,000 is exempt from the USC		
Full Medical Card Holders & Over 70s	Employee	Self Employed
Income up to €12,012	1%	1%
Income in excess of €12,013	3%	3%
However those with earnings greater than €60,000 will pay the normal USC rates		

Savings and Investment Tax	No Change
DIRT	41%
Life Assurance Exit Tax – Personal plans	41%
Corporate owned	25%
Wrapper Products	60%

Social Welfare Benefits

For more information see www.welfare.ie

Social Welfare Benefits	2016	2015
State Pension (Contributory)		
Personal Rate	**€233.30**	€230.30
Personal + Adult dependent (over 66)	**€442.30**	€436.60
Widow / Widowers under 66	€193.50	€193.50
State Pension (Non – Contributory)		
Personal Rate	**€222.00**	€219.00
Personal + Adult dependent (under 66)	**€368.70**	€363.70
Widow / Widowers under 66	€188.00	€188.00
Invalidity Pension		
Personal Rate (65 and under)	€193.50	€193.50
Personal + Adult dependent	€331.60	€331.60
Disability Allowance		
Personal Rate	€188.00	€188.00
Personal + Adult dependent	€312.80	€312.80
Jobseekers / Illness Benefit		
Personal Rate	€188.00	€188.00
Personal + Adult dependent	€312.80	€312.80
Jobseeker's Allowance		
18 to 24 years of age		
Personal Rate	€100.00	€100.00
Personal + Adult dependent	€200.00	€200.00
25 years of age		
Personal Rate	€144.00	€144.00
Personal + Adult dependent	€268.80	€268.80
26 years of age and over		
Personal Rate	€188.00	€188.00
Personal + Adult dependent	€312.80	€312.80
Increase for each dependent child	€29.80	€29.80
Where a person aged 18 to 24 has a dependent child the basic personal rate of €188 and not the reduced rate applies		

Child Benefit	2016	2015
Rate per child	**€140.00**	€135.00

Capital Acquisitions Tax from 14 October 2015	
Group A	**€280,000 (child)**
Group B	€30,150 (lineal ancestor/decedent, brother, sister or child of brother or sister
Group C	€15,075 (Others)
The thresholds apply to all gifts and inheritances received since 5 December 1991.	
Tax Rate On all gifts / inheritances above thresholds	33%
Annual Gift Exemption	€3,000
The annual small gift exemption can be availed of regardless of the relationship between the disponer and the beneficiary. The exemption is limited to one gift per beneficiary from each disponer in a calendar year. It does not impact on the CAT Thresholds noted above.	